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No. 98-244

In The

Supreme Court of the United States

October Term, 1997

REPEAT-O-TYPE STENCIL,
MANUFACTURING CORPORATION,

Petitioner,

vs.

HEWLETT-PACKARD COMPANY,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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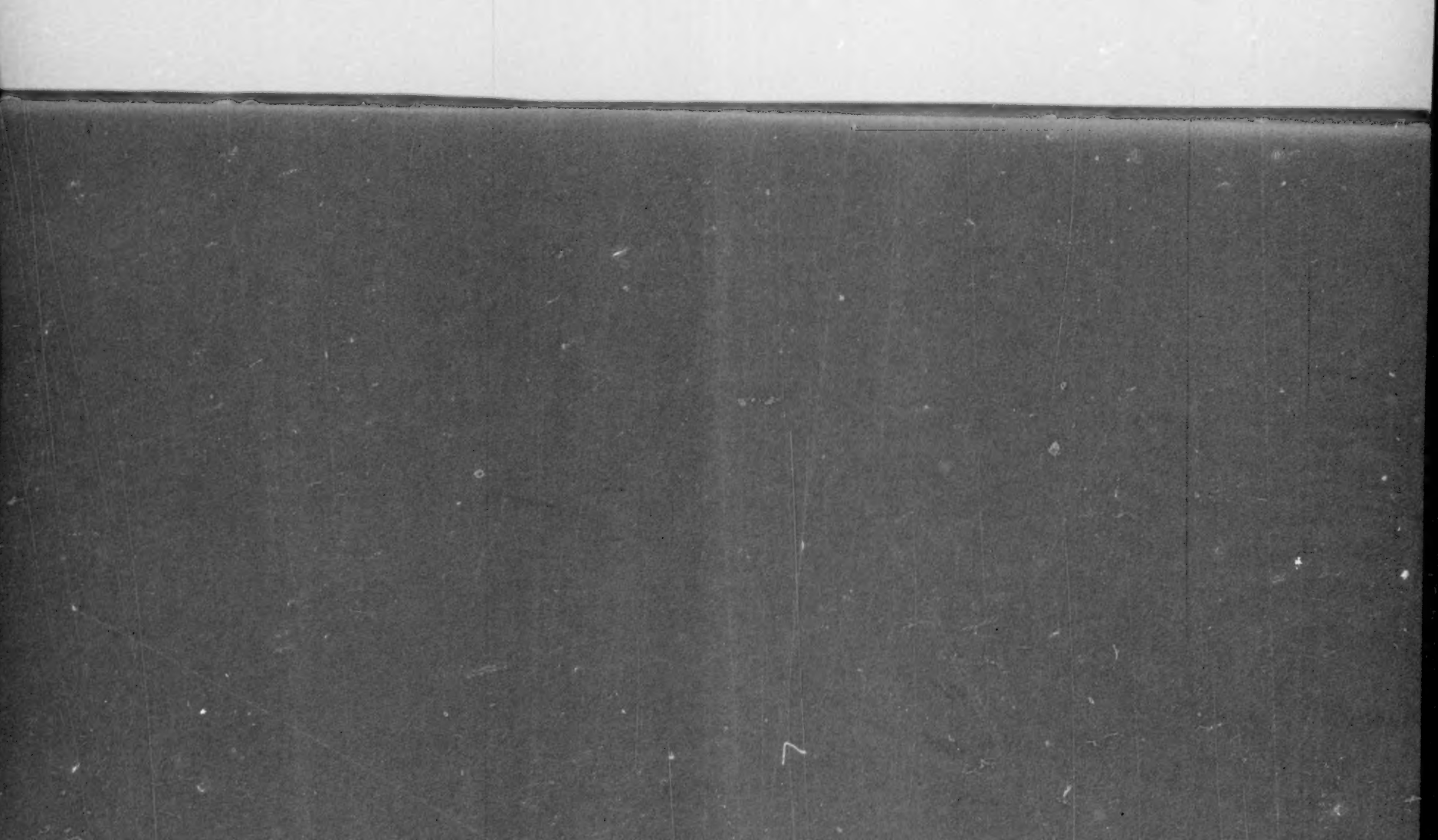

CORPORATE LISTING UNDER 29.6

Hewlett-Packard Company has no parent companies or subsidiaries or affiliates that have issued shares to the public.

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Respondent Hewlett-Packard Company ("HP") respectfully requests that Petitioner Repeat-O-Type Stencil Manufacturing Corporation's ("ROT") petition for certiorari be denied.

STATEMENT OF THE CASE

Every judge that has considered ROT's unfounded claim that HP engaged in sham litigation has dismissed the accusation out of hand — sometimes more than once. The district court judge in the underlying lawsuit about which ROT complains denied ROT's request for Rule 11 sanctions and denied, on futility grounds, ROT's subsequent motion to amend its pleadings to add antitrust claims based on sham litigation. The district court judge in the present action (which ROT filed after losing its motion to amend in the underlying action) dismissed the case. A unanimous panel of the Ninth Circuit affirmed the dismissal in a ten-paragraph, unpublished opinion. The full court denied ROT's request for en banc review. In addition, the Federal Circuit has carefully reviewed the substance of HP's patent claims against ROT — the supposedly "sham" allegations — and, though it ruled against HP on the merits, made clear that the patent issues in this case are close. ROT's petition for certiorari should be denied because: (a) it presents no issue worthy of review; (b) its legal assertions are plainly meritless; and (c) ROT is precluded by the doctrine of res judicata from asserting the merits of its baseless claims before this Court.

A. ROT's Initial Unsuccessful Attempt To Bring Its "Sham Litigation" Claim In The Underlying Northern District Action

The underlying lawsuit that ROT wrongfully attempts to label a "sham" began as a direct result of ROT's counterfeiting of HP's trademark rights. HP filed a complaint against ROT on

August 19, 1992, in the Northern District of California (the "Northern District") in an action entitled *Hewlett-Packard Company v. Repeat-O-Type Stencil Manufacturing Corp., Inc.*, Civil Action No. C-92-3330 (the "Northern District Action"). (SER at 10.)[1] The Northern District Action is *not* the case in which ROT currently seeks review; by its petition, ROT seeks review with respect to the second case it later filed, as described in Section B, below.

The Northern District Action involved ROT's infringing activity in selling HP ink-jet cartridges, which ROT had modified, by prominently displaying HP's registered trademarks on its packaging. ROT sold the modified cartridges in the *original* HP box, and displayed the HP box through a plastic window in its packaging, to give consumers the impression that they were buying an original HP cartridge. Even worse, ROT removed the original cartridge from the original box by unsealing the glue strip on one side of the box, while leaving intact the "tear strip" that a consumer would normally use to tear open the box. ROT then placed the modified cartridge back into the original box and reglued the box. Through this technique, ROT deceived consumers into believing that they were buying an original HP cartridge in an original, unopened HP box.

Two days after HP filed the Northern District Action against ROT, the district court judge issued an order for seizure and impound and a temporary restraining order against ROT. In the hearing early on in the case, the district court judge made the following observations of ROT's infringing activities:

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1. HP's response to ROT's certiorari petition makes reference to the Excerpts of Record ("ER") and the Supplemental Excerpts of Record ("SER") filed by the parties in the Ninth Circuit, as well as to ROT's Appendix to its certiorari petition and HP's Appendix to the current response.

> I have to say to the defendants, *it's been a long time since I've seen a more blatant, what I think, copying of somebody else's logo*. I don't quite understand why the defendants feel that it's perfectly alright to take someone else's logo, put it on their property without any authorization and then be surprised or outraged when the owners of the logo get upset . . . The fact that you're a small company doesn't mean you can just go around and take somebody else's logo and plop it on your products and use it any way you want.

(SER at 19.) Eventually, the Northern District granted summary judgment against ROT on the trademark claims and, after a jury trial, found that ROT had committed trademark counterfeiting and awarded HP $255,000 in compensatory damages, $40,000 in punitive damages against ROT, $60,000 in punitive damages against ROT's principal shareholder, and $1,309,995 in attorneys' fees. (Northern District Action Judgment, filed April 20, 1998.)

Because the product that ROT was selling in its misleading packaging was nothing more than a modified version of HP's own cartridges, the product unsurprisingly fell under the terms of numerous HP patents. Accordingly, early in the Northern District Action, HP filed a First Amended and Supplemental Complaint which added allegations that ROT's modifications to HP ink-jet cartridges infringed several of HP's patents on ink-jet cartridges under the "impermissible reconstruction" doctrine of patent infringement. (SER at 10, 70-103.) The question presented by HP's patent complaint was a straightforward question of patent law: did ROT's purchase of the HP product carry with it an implied license under the patent law to modify it and resell it; or did ROT's modification constitute impermissible "reconstruction" such that ROT's sale

of the modified product was the sale of a new product that infringed HP's patents. A year after filing its patent claims HP analyzed some ink-jet ink that ROT was selling and discovered that ROT's ink infringed an HP patent on an improved ink formulation (the "Ink Patent"). That discovery caused HP to file a Second Amended and Supplemental Complaint in the Northern District Action, which contained a new infringement claim on the specific HP Ink Patent. (SER at 10, 105-39.)

When the underlying action was approximately two years old, both HP and ROT brought summary judgment motions on HP's patent claims (and on the trademark claims). Because the central issue to HP's patent case was the same for all HP's asserted patents except the Ink Patent, HP based both its summary judgment motion and it opposition to ROT's summary judgment motion on two exemplary patents of the eleven that were based on, and stood or fell together on, the impermissible reconstruction doctrine of patent law. (ER Vol. II, Tab 11.) HP also explained in Section II.D of its brief opposing ROT's Summary Judgment Motion (filed November 17, 1994) how ROT's ink infringed HP's Ink Patent. While the Northern District granted summary judgment in favor of HP on the trademark claim (leaving only the issue of counterfeiting and damages for a jury trial), the court ruled against HP on the patent claims. (ER Vol. II, Tab 12.)

In its motion for summary judgment, ROT requested Rule 11 sanctions based on the false allegation that HP brought the patent infringement claims knowing that there was no basis for bringing them. The Northern District denied ROT's request for Rule 11 sanctions. (ROT Appendix F at 53a.) On November 16, 1994, ROT sought leave from the Northern District to file counterclaims against HP for the very same causes of action at issue in the current petition. Specifically, ROT's proposed claims included federal (and state) antitrust claims based on

the false theory that HP had filed sham patent claims against ROT in the Northern District Action. Following the Northern District's order granting ROT summary judgment on HP's patent claims, ROT renewed its request for leave to file counterclaims, adding new proposed counterclaims for malicious prosecution and vexatious litigation. (SER at 11, 178-87.) On August 30, 1995, the Northern District denied ROT's motion to file its counterclaims, *specifically* holding that leave to file the omitted counterclaims would be futile because each of the claims would be subject to a motion to dismiss. (HP Appendix A.) The Northern District, the court most familiar with the underlying patent claims, ruled, among other reasons for denying leave to amend, that ROT's proposed amendment would be futile as a matter of law:

> It cannot be reasonably contended that this litigation is a "sham." [HP] has prevailed on its trademark, unfair competition , and false designation claims . . . [¶] Even looking at the patent claims alone, it cannot be said that institution of the proceedings was "objectively baseless" or "lacking in probable cause" . . . Although [HP's] theory that [ROT's] modification of its patent was ultimately unavailing, it was "warranted by existing law" or at least based on an objectively "good faith argument for the extension, modification, or reversal of existing law" . . . In fact, the Court implicitly rejected Repeat-O-Type's arguments by denying Repeat-O-Type's request for Rule 11 Sanctions.

(HP Appendix A at 9a and 10a.)

HP appealed the Northern District's summary judgment against it on the patent claims to the Federal Circuit. Thus, the Federal Circuit reviewed the merits of the very claims that ROT

asserts to constitute "sham litigation." The Federal Circuit's lengthy, published opinion carefully analyzes the merits of HP's impermissible reconstruction argument and makes very clear that those claims were *not* objectively baseless, and hence cannot be the basis for an alleged violation of the antitrust laws. (The Federal Circuit opinion, *Hewlett-Packard Co. v. Repeat-O-Type Stencil Mfg. Co.*, 123 F.3d 1445 (Fed. Cir. 1997), *cert. denied*, 118 S. Ct. 1304, 140 L. Ed. 2d 470 (1998) is attached as HP Appendix B.)

The Federal Circuit's analysis reveals that the patent claims asserted by HP present a close question. Contrary to ROT's argument here that the patents at issue had nothing to do with the ROT products, the Federal Circuit explained:

> HP owns numerous patents on various facets of ink jet printing technology. . . . Twelve of these patents are involved in this suit. Of the twelve asserted patents, two of them, U.S. Patents 4,827,294 and 4,931,811, are directed to ink jet cartridges . . . and a third, U.S. Patent 5,108,503, is directed to a specific ink formulation. The remaining patents are directed to other aspects of ink jet printing technology and are directed to specific components within ink jet cartridges.

123 F.3d at 1447; HP Appendix B at 14a-15a. The Federal Circuit then went on to describe the two representative patents in detail. *Id.* at 1447-1448; HP Appendix B at 15a-18a. The Federal Circuit in fact ruled in HP's favor on claim interpretation, a ruling that allows the patents to read on ROT's products:

> We agree with HP that the [district] court misconstrued the claims. They relate to ink jet

> cartridges, not to specific components within the cartridges. The preamble of each claim clearly states that it relates to an "ink jet pen including" the recited limitations . . . Thus, claim 3 of the '294 patent, for example, reads on ink jet pens that contain the recited pen body housing, thin film printhead, and the flexible electrical circuit member.

Id. at 1451; HP Appendix B at 24a. The Federal Circuit then turned to the issue of whether ROT's modification of HP's inkjet cartridges constituted a permissible repair or an impermissible reconstruction of those cartridges. The court's eight-page analysis of this issue also makes clear that HP's assertion of the repair/reconstruction doctrine, while ultimately unsuccessful, was in no way objectively baseless. Indeed, the court found that ROT's modification fell somewhere in between repair and reconstruction:

> *HP correctly states that ROT's modification is not conventional repair.* The caps on the purchased cartridges are not broken or defective. On the other hand, neither is ROT's modification a "reconstruction" of the patented combination . . . While there is no bright-line test for determining whether a modification is a "reconstruction" . . . we agree with the district court that ROT has not reconstructed the cartridges. ROT's modification of the caps of HP's cartridges is *more akin to permissible "repair" than to impermissible "reconstruction."*

Id. at 1452; HP Appendix B at 27a (emphasis added). On June 17, 1997, ROT voluntarily withdrew (with HP's permission) its request that the Federal Circuit award sanctions against HP for filing an allegedly frivolous appeal. ROT's abandonment of its request for sanctions is further evidence that HP's patent infringement case was *not* objectively baseless.

As explained above, while it did not ultimately prevail on the patent claims, HP prevailed at trial in its trademark claims against ROT. On April 27, 1998, ROT filed an appeal from the judgment against it in the Northern District Action; on or about August 11, 1998 ROT filed its appellate brief. While ROT appealed on fourteen separate issues, it chose *not* to appeal the Northern District's denial of ROT's motion to amend to add the identical claims of "sham litigation" at issue in the current certiorari petition. (A copy of the table of contents of ROT's appellate brief in the Northern District Action is attached as HP Appendix C.) Accordingly, the Northern District Action ruling on that point has become final.

B. ROT's Second Unsuccessful Attempt To Bring Its "Sham Litigation" Claim, This Time In The Central District of California

ROT's current certiorari petition involves ROT's second attempt to assert its meritless "sham litigation" claims. After the Northern District ruled that ROT's "sham litigation" claims against HP were futile, ROT simply filed the same claims in the Central District of California (the "Central District"), hoping it would fare better in Los Angeles than it had fared in Oakland. ROT filed the complaint in this action together with a motion for summary judgment. (SER at 12-13.) HP filed a motion to dismiss ROT's complaint, which the district court judge heard at the same time he heard ROT's summary judgment motion.

The Central District dismissed ROT's "sham litigation" claims. (ROT Appendix B.) In doing so, the court gave lengthy consideration to the Northern District's orders in the underlying action, noting that the Northern District had specifically ruled hat "it cannot be reasonably contended that this litigation is a 'sham.' " (ROT Appendix B at 19a.) Finding that the claims alleged in the complaint were "substantially unchanged and

based upon the same allegations" as the proposed counterclaims rejected in the Northern District Action, the district court judge held that "[f]or the same reasons" as those set forth in the Northern District's prior rulings, HP's patent infringement suit against ROT "was not objectively baseless, did not constitute sham litigation" and therefore, that ROT failed to state a claim against HP for antitrust violations under either federal or California law. (ROT Appendix B at 20a.)

The Ninth Circuit affirmed the district court's dismissal in an unpublished opinion just ten paragraphs long. (ROT Appendix A.) The Ninth Circuit opinion (by Judges Browning, Fletcher and Kozinski) was straightforward:

> We note that HP discussed its infringement theory with reference to several representative patent claims because the dispositive issue on eleven of them (excluding the ink patent) was the same: "whether ROT's modifications to unused HP ink-jet cartridges constituted an impermissible reconstruction of the cartridges." Nor do we find that a claims chart is a prerequisite for a suit . . . [¶] Although ultimately unsuccessful, HP's claims based on the '294 and '811 patents were not objectively baseless . . . [¶] Overall, HP's patent claims, while unavailing, are not objectively baseless nor do they demonstrate grave abuse, therefore, the judgment of the district court is affirmed.

ROT now seeks review of this unexceptionable opinion.

REASONS FOR DENYING THE WRIT

I.

ROT'S PETITION PRESENTS NO ISSUES THAT WOULD BENEFIT FROM REVIEW BY THIS COURT

"A petition for writ of certiorari will be granted only for compelling reasons," Supreme Court Rule 10, and ROT's petition provides none. Putting aside for the moment that ROT's claims are patently meritless (Point II, below) and that they are barred by the doctrine of res judicata (Point III, below), ROT has pointed to no need for review by this Court, much less a compelling need. This case involves no split of authority among the circuits, no important undecided issue of federal law, no need for exercise of this Court's supervisory powers. *See* Supreme Court Rule 10(a). In an unpublished opinion, the circuit court below applied well-established law to the particular facts of the case before it. ROT has petitioned for certiorari solely because it is dissatisfied with the outcome of its appeal, not because this case presents any important questions.

The reason that the district court dismissed ROT's unfounded "sham litigation" claims, and the reason the Ninth Circuit correctly affirmed, turns on the particular facts of this case, not on any broad question of law. This case involves questions such as the exact scope of the patents at issue, the significance of preparing, or not preparing, a document called a "claims chart" in connection with patent litigation, what HP's discovery responses did and did not concede, and whether three separate courts were incorrect in holding that HP's repair/reconstruction argument was not objectively baseless. No question of law, important or trivial, is implicated. This case is not the stuff of which Supreme Court decisions are made.

II.

ROT'S ALLEGATION OF SHAM LITIGATION ARE PATENTLY MERITLESS

ROT's petition should also be rejected because ROT's case is plainly without merit. Under the *Noerr-Pennington* doctrine, persons who seek redress through administrative agencies and the courts are immune from antitrust liability for seeking such redress. *Eastern R.R. Presidents Conference v. Noerr Motor Freight, Inc.*, 365 U.S. 127, 81 S. Ct. 523, L. Ed. 2d 464 (1961); *United Mine Workers v. Pennington*, 381 U.S. 657, 85 S. Ct. 1585, 14 L. Ed. 2d 626 (1965). One exception to this antitrust immunity is for so-called "sham" litigation. *Professional Real Estate Investors, Inc. v. Columbia Pictures Indus., Inc.*, 508 U.S. 49, 56, 113 S. Ct. 1920, 123 L. Ed. 2d 611 (1993). This Court has defined a two-step test to determine "sham" litigation. First, a court must determine whether the suit is "objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits." *Id.* at 60. "Only if the challenged litigation is objectively meritless may the court examine a litigant's subjective motivation." *Id.*

The Ninth Circuit correctly applied these straightforward principles to the facts of this case. (ROT Appendix A.) To support its "sham litigation" claim, HP alleged only that HP asserted just three patents, not all twelve patents, in its opposition to ROT's patent summary judgment motion, and that HP and its attorneys had not "prepared a claim chart" prior to filing suit. (ROT Appendix D at 28a-29a.) These allegations do not come close to making out a sham litigation case, and are easily refuted by reference to the actual files of the Northern District Action (which can be judicially noticed). First, as to all but one of the patents asserted by HP (the Ink Patent), the dispositive issue was exactly the same: whether ROT's

modifications to unused HP ink-jet cartridges constituted an impermissible reconstruction of the cartridges (and thus an infringement of HP's patents) or a permissible repair of those cartridges. Therefore, when HP both moved for and opposed summary judgment, it selected two exemplary patents (Nos. 4,827,294 and 4,931,811, the patents discussed in the Federal Circuit opinion) for presenting the impermissible reconstruction theory of infringement. The mere fact that HP chose to concentrate on a few representative patents — rather than burdening the district court with a discussion of all eleven patents, which in any event stood or fell together — hardly takes HP's lawsuit outside the protections of *Noerr-Pennington*.

Second, as the Ninth Circuit noted, there is no requirement to prepare a claims chart prior to filing suit.[2] This is particularly true in the current case, given that HP was intimately familiar with the accused product, which consisted of modified versions of HP's own product. All that is required is an analysis of the accused product and the underlying patent, and that is precisely what HP did, as evidenced by the analysis of Patent Nos. 4,827,294 and 4,931,811 contained in HP's own motion for partial summary judgment. (SER at 11-12; *see* ER Vol. II, Tab 11.)[3] Further, HP also analyzed the Ink Patent, as the record

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2. Nothing in *Herbert Judin v. United States*, 110 F.3d 780 (Fed. Cir. 1997) or *Refac Int'l. Ltd. v. Hitachi, Ltd.*, 19 U.S.P.Q. 2d (BNA) 1855 (C.D. Cal. 1991), relied upon by ROT, remotely holds to the contrary. Those cases stand for the unexceptionable proposition that where no attempt is made to determine whether key claim limitations are present in the accused device, and those limitations are in fact missing, Rule 11 sanctions are appropriate.

3. Apparently recognizing that the Ninth Circuit was correct that there is no claims-chart requirement, ROT now claims that what it meant all along was that no claims analysis had been done, and it faults the Ninth Circuit for supposedly not realizing this. But ROT argued to the Ninth Circuit only

(Cont'd)

below makes clear, as HP described in its opposition to ROT's summary judgment motion, and as the Ninth Circuit noted. (SER at 12; ROT Appendix A at 5a.)

The fact that HP's patent claims were not objectively baseless can be shown not only by the district court opinion in the Northern District Action — written by the judge most familiar with the underlying dispute — but by the Federal Circuit's careful, published opinion considering the patent issues raised by HP. The Federal Circuit concluded that the claims of the representative HP patents did in fact relate to the accused ROT-modified cartridges. 121 F.3d at 1447-1448; HP Appendix B at 14a-15a, 22a-24a. The Federal Circuit also carefully weighed whether the modification was permissible repair or impermissible reconstruction and concluded that, while there was no bright line rule, it was more "akin" to permissible repair. *Id.* at 1552; HP Appendix B at 27a. In short, HP's patent claims against ROT were a close case: they were certainly not "objectively baseless." ROT itself recognized this by withdrawing its claims for sanctions in the Federal Circuit with respect to these claims.

Finally, ROT's claim about HP's patent claims violating *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 62 S. Ct. 402, 86 L. Ed. 2d 363 (1942) and *Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S. Ct. 268, 88 L. Ed. 2d 1089 (1944) is extremely difficult to understand. There

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(Cont'd)

that HP failed to prepare a claims chart. (ROT's Ninth Circuit Brief at 19.) Further, the charge that HP performed no claims analysis is demonstrably false, as the record here makes clear. (SER at 11-12.) Importantly, in its complaint, ROT alleged only that HP had failed to prepare a claims chart — not that it failed to analyze the patents and the accused product. (ROT Appendix D at 28a.) ROT's newfound argument is not only demonstrably untrue, but it forms no part of this case.

was not even an allegation that HP improperly tied the sale of its patented ink-jet cartridges to the sale of any unpatented ink. As explained above, the basis for HP's assertion of the '811 patent was ROT's modification of unused HP ink-jet cartridges (which, HP maintained, is an impermissible reconstruction of a patented article) — not ROT's sale of refill ink. Indeed, HP has not sued ROT or any other refill ink manufacturer for merely selling ink for refilling HP cartridges, provided that such ink does not infringe any of HP's patents on ink.

Unlike HP's patent claims themselves, ROT's sham litigation antitrust claims are plainly and simply without merit. The district court correctly dismissed them, and the Ninth Circuit correctly affirmed the dismissal.

III.

ROT'S ANTITRUST CLAIMS ARE BARRED BY THE DOCTRINE OF RES JUDICATA

This Court should deny review for one additional reason: this Court would not in any event reach the merits of ROT's antitrust claims because they are barred by res judicata. While this was not a basis of the Ninth Circuit's opinion, the problem would prevent the Court from considering the issues ROT purports to raise.

ROT sought to amend its pleadings in the underlying action in the Northern District of California to add the very claims at issue here, and the Court denied ROT's request *on futility grounds*. (HP Appendix A.) ROT failed to appeal that order. (HP Appendix C.)

> Where a plaintiff's motion to amend its complaint in the first action is denied, and plaintiff fails to

> appeal the denial, res judicata applies to the claims sought to be added in the proposed amended complaint.

EFCO Corp. v. U.W. Marx, Inc., 124 F.3d 394, 399-400 (2d Cir. 1997). *See also Crockett v. Whisenhunt*, 127 F.3d 678, 683 (8th Cir. 1997); *Huck v. Dawson*, 106 F.3d 45, 49-50 (3d Cir. 1997), *cert. denied*, 117 S. Ct. 2458, 139 L. Ed. 2d 197 (1997). This rule applies even to claims which are not "transanctionally related" to the other claims in the first lawsuit, so long as the first court denied leave to amend based on the merits of the claim. *Integrated Techs. Ltd. v. Biochem Immunosystems, Inc.*, 2 F. Supp. 2d 97, 101-102, 103 (D. Mass. 1998). *See also Crockett*, 127 F.3d at 682-683 (court denied party's motion to amend to add "fraud on the court" claim; party's later attempt to file second lawsuit asserting same claim barred by res judicata). The rule applies even where, as here, the party asserting the claim attempts to file a second lawsuit before the first lawsuit becomes final; so long as the judge's ruling in denying the amendment was based on futility, the timing of plaintiff's second suit does not matter:

> [P]laintiff has had one adjudication on the merits of the very claim that he attempts to assert in the second complaint. That single adjudication on the merits is all that he is entitled to, both as a matter of justice and under the classic formulation of the doctrine of claim preclusion. He may appeal the denial of his motion to amend, but he may not litigate his claim in a second proceeding.

Id. at 104.

ROT chose not to appeal the denial of its proposed claims in the Northern District Action; it cannot now argue them before

this Court. Application of the rule that failure to appeal a denial of a motion to amend bars the assertion of the claims in a later lawsuit makes particular sense in this case. First, the district court judge in the underlying Northern District Action was in the best position to rule on the merits of ROT's claim, given his familiarity with HP's conduct in, and all issues regarding, the underlying case. Second, the district court judge in the current action called ROT's tactic in filing a second action an attempt to "reargue their same position" before a second judge. (ROT Appendix B at 20a.) Third, in the briefing below, HP explicitly warned ROT of the preclusive effect of the early rulings, stating that the judge's decisions in the Northern District Action denying Rule 11 sanctions against HP and denying ROT's motion to amend the counterclaim "will have preclusive effect once HP's trademark damages are determined and final judgment is entered in the underlying case." (HP's Supplemental Brief at 3, filed in the Ninth Circuit on or about August 30, 1997.) Yet ROT chose not to challenge those rulings on appeal. For the additional reason that a court may no longer reach the merits of ROT's baseless antitrust claims, certiorari should be denied.

CONCLUSION

The three courts that have rejected ROT's meritless claims were correct. ROT has raised no question requiring review. For all the reasons stated above, HP respectfully requests that this Court deny ROT's petition for certiorari.

Respectfully submitted,

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APPENDIX

APPENDIX A — EXCERPTS OF ORDER OF THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF CALIFORNIA FILED AUGUST 30, 1995

No. C-92-3330 DLJ

HEWLETT-PACKARD COMPANY,

Plaintiff,

v.

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION and FRED KEEN,

Defendants.

ORDER

On May 31, 1995, the Court heard arguments on (1) defendant Repeat-O-Type's motion for leave to file counterclaims; (2) defendant Fred Keen's motion for reconsideration of the Court's grant of summary judgment against him on the trademark claims (and motion for partial summary judgment in his favor); (3) plaintiff Hewlett-Packard Company's motion for partial summary judgment against defendants Repeat-O-Type and Fred Keen on its unfair competition, false designation, and false advertising claims; and (4) plaintiff's motion to modify the permanent injunction. Mark L. Pettinari of Townsend and Townsend Khourie and Crew and Bruce D. Kuyper of Irell & Manella appeared on behalf of plaintiff. Edward F. O'Connor of Poms, Smith, Lande & Rose appeared on behalf of defendant Repeat-O-Type. David A. Gauntlett of Callahan & Gauntlett appeared on behalf of

defendant Fred Keen. Having considered the arguments of counsel, the papers submitted, the applicable law, and the record herein, the Court hereby (1) denies Repeat-O-Type's motion for leave to file counterclaims; (2) grants Keen's motion for reconsideration; (3) grants plaintiff partial summary judgment against Repeat-O-Type on the unfair competition and false designation claims and denies summary judgment on the false advertising claim against Repeat-O-Type and all claims against Keen; and (4) grants in part and denies in part plaintiff's motion to modify the permanent injunction.

BACKGROUND

Plaintiff HP originally filed this action complaining of trademark infringement, false designation, description and representation, and unfair competition and deceptive trade practices. In its Third Amended Complaint filed July 21, 1994, HP added Fred Keen, president of ROT as an additional defendant, and has added patent claims against the defendants.

Plaintiff's claims arise from the sale by ROT of 2 modified HP print cartridges. ROT would purchase two types of HP inkjet cartridges from authorized HP distributors. ROT has converted the HP 51608A inkjet print cartridge (the "Stanley" cartridge) to contain colored ink rather than the original black ink. ROT has also converted the HP 61625A inkjet print cartridge (the "Kukla" cartridge) by breaking the seal of the cap and replacing the cap with shims so that the cap can be removed and the cartridge refilled by the consumer. ROT put the modified cartridges back in the original HP boxes. The original HP boxes, now housing the modified cartridges, along with a supply of refill ink supplied by HP, were put inside an outer package with a see-through plastic "window" and sold by ROT as refill

kits. HP claimed that ROT's modifications infringe HP's patent rights, and that ROT's use of HP's trademarks creates *confusion as* to the product's source.[1]

In August 1992, HP filed a complaint alleging trademark infringement in violation of the Lanham Act, 115 U.S.C. § 1051 *et seq.* Two days later, United States District Court Judge Fern M. Smith granted plaintiff's simultaneously filed application for an order directing the U.S. Marshall to seize and impound all reproductions, counterfeits or copies of [p]laintiff's federally registered "HEWLETT-PACKARD," "HP," and "DeskJet" trademarks and "hp" logo. August 21, 1993 Order, at 3. In the same Order, defendants were directed to show cause why a preliminary injunction should not issue enjoining defendants from infringing plaintiff's trademarks and "misrepresenting in any way to the public their affiliation, sponsorship or relationship to [p]laintiff and the nature and quality or source of origin of the good that they are advertising, promoting, offering for sale, selling, and/or distributing." *Id.* Pending plaintiff's application for a preliminary injunction, the Court issued a broad temporary restraining order preventing the manufacture or disposal of any potentially infringing goods. The seizure authorized by the Order took place on August 28, 1992.

On September 18, 1992, a hearing on the order to show cause re: the preliminary injunction was held before the Honorable Fern M. Smith. Judge Smith deferred ruling on the application for preliminary injunction and encouraged the

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1. Plaintiff seeks to protect its federally registered "HEWLETT-PACKARD," "HP," "DeskJet," and "DeskWriter" names and trademarks and the "hp" logo (also a name and registered trademark and service mark of plaintiff).

parties to undergo further settlement negotiations. Judge Smith also dissolved her previous Order of Seizure and Impound as to items not bearing permanent, non-deletable HP trademarks and logs. Order of September 29, 1992. The Court continued its TRO and order of Seizure and Impound as to the remaining items.

The case was subsequently transferred to this Court. Defendants filed supplemental briefing on the pending motion for preliminary injunction. The Court granted plaintiff's motion for a preliminary injunction in an Order dated April 1, 1994. Repeat-O-Type did not seek an appeal of this ruling.

In an Order dated February 7, 1995, the Court granted plaintiff summary judgment on the trademark claims and granted defendants summary judgment on the patent claims. Parties submitted proposed forms of injunctions. On March 8, 1995, the Court entered a permanent injunction.

Now before the Court are (1) defendant Repeat-O-Type's motion for leave to file counterclaims; (2) defendant Fred Keen's motion for reconsideration of the Court's grant of summary judgment against him on the trademark claims (and motion for partial summary judgment in his favor); (3) plaintiff's motion for partial summary judgment against defendants Repeat-O-Type and Fred Keen on its unfair competition, false designation, and false advertising claims; and (4) plaintiff's motion to modify permanent injunction.

Appendix A

DISCUSSION

I. *Defendant Repeat-O-Type's Motion for Leave to File Counterclaims*

Defendant Repeat-O-Type seeks to add nine counterclaims against plaintiff Hewlett-Packard: (1) unfair competition under California Code § 17200 *et seq.*; (2) intentional interference with a prospective business advantage under California law; (3) negligent interference with a prospective business advantage under California law; (4) antitrust activities in violation of the Sherman Act, 15 U.S.C. § 2 and the Clayton Act, 15 U.S.C. § 14; (5) abuse of process in violation of California law; (6) violation of California Business and Professions Code §§ 16700-60 (combination in restraint of trade); (7) unlawful seizure under 15 U.S.C. § 116(d)(11); (8) unlawful seizure under California Business and Professions Code § 14340(c); and (9) trade libel under California Law. At oral argument, defendant stated that it was withdrawing its request to add a ninth claim for malicious prosecution in violation of California law and a tenth claim for vexatious litigation in violation of 28 U.S.C. 1927.

The basis of Repeat-O-Type's proposed counterclaims is Hewlett-Packard's prosecution of the underlying suit against Repeat-O-Type. Repeat-O-Type also claims that Hewlett-Packard has made disparaging comments about its competitors' products.

Defendants oppose plaintiff's motion on the grounds of undue delay, prejudice, and futility of amendment.

Appendix A

A. *Legal Standard*

Rule 13(f) of the Federal Rules of Civil Procedure governs the situation where, as here, a party omits a counterclaim and later seeks leave to assert the tardy counterclaim. Rule 13(f) provides as follows:

> (f) **omitted Counterclaim.** When a pleader fails to set up a counterclaim through oversight, inadvertence, or excusable neglect, or when justice requires, the pleader may by leave of court set up the counterclaim by amendment.

The decision whether to permit an untimely counterclaim rests within the discretion of the district court. *See Ralston Purina Co. v. Bertie*, 541 F.2d 1363, 1367 (9th Cir. 1976).

1. *Delay*

Defendant's proposed counterclaims are subject to disallowance solely on the basis of delay. *See, e.g., Ralston-Purina Co. v. Bertie*, 541 F.2d 1363, 1367 (9th Cir. 1976) (upholding district court's refusal to grant leave to add counterclaim where movant failed to offer "any reasonable explanation" of a delay of six months after filing of the answer to the complaint before seeking leave to add the counterclaim).

Repeat-O-Type has made not made a sufficient showing that its failure to file the proposed counterclaims over the last 2 1/2 years was due to oversight, inadvertence, or excusable neglect. Defendant claims that it only recently became aware of the facts underlying its claims, but plaintiff's allegations and the history of the litigation belie this assertion.

Appendix A

As the basis for its counterclaims, Repeat-O-Type argues that the seizure order issued by Judge Smith on August 21, 1992 was without merit. There is no excuse for Repeat-O-Type's waiting over two years to file its counterclaims challenging the bases for this action.

Repeat-O-Type further argues that the patent claims, first filed in the First Amended Complaint on November 2, 1992, are without merit and were filed to harass Repeat-O-Type. Repeat-O-Type claims that it had not been represented by federally registered patent attorneys before September 6, 1994, but since the patent claims were filed almost two years earlier, Repeat-O-Type's failure to timely obtain patent counsel does not constitute excusable delay. Neither is Repeat-O-Type's contention that it only recently realized that Hewlett-Packard had not done a claims analysis a sufficient explanation. Repeat-O-Type claims that Hewlett-Packard has made false and damaging statements against its competitors. Although Repeat-O-Type does not explicitly allege the time frame for these allegations, it appears that the alleged statements have been occurring over a lengthy time period, and there is no justification for the delay.

2. *Prejudice*

Repeat-O-Type concedes that its counterclaims would insert substantial new issues into the litigation, but contends that the counterclaims would not raise substantial new facts or require the presentation of substantial new evidence. Repeat-O-Type notes that it currently asserts antitrust violations by Hewlett-Packard as a defense to Hewlett-Packard's patent claims, and argues that adding an antitrust violation by Hewlett-Packard as a counterclaim would not broaden the

issues, facts, or evidence to be presented. Since the Court has granted summary judgment in favor of defendants on the patent claims, the antitrust claims are no longer in the lawsuit as defenses to those claims. Thus, adding an antitrust claim would significantly broaden the issues, evidence, and discovery to be conducted.

At this point, a substantial amount of discovery has already been conducted. The Court has granted summary judgment on the central issues of this case, resulting in the elimination of many of the issues for trial. Permitting Repeat-O-Type to assert nine disparate counterclaims would substantially broaden the scope of the litigation and prejudice plaintiff.

3. *Futility*

Hewlett-Packard argues that all of Repeat-O-Type's proposed counterclaims are without merit, and therefore leave to amend would be futile. Although Rule 13((f) does not recite futility of allowing the omitted counterclaim as a factor to consider, courts may apply the futility factor that is considered in connection with motions to amend the pleadings under Rule 15(a) when considering whether to permit omitted counterclaims. *See, e.g., Galan v. Gecrenheimer,* 1992 U.S. Dist. LEXIS 15708, *6 (E.D. La. Oct. 14, 1992), *aff'd,* 996 F.2d 305 (5th Cir.), *cert. denied,* 114 S. Ct. 567 (1993) (another factor to consider when considering leave to file an omitted counterclaim is " 'futility of the proposed amendment' ") (quotation omitted).

a. *Antitrust Claim*

Repeat-O-Type's proposed antitrust claim (Count IV) stems from the allegation that Hewlett-Packard's present

lawsuit against Repeat-O-Type is a "sham" which is part of an overall scheme to establish a monopoly.

Under the *Noerr-Pennington* doctrine, the Supreme Court has held that persons who seek redress through governmental agencies or the courts are immune from antitrust liability for seeking such redress. "Sham" litigation is an exception to this immunity. *Professional Real Estate Investors v. Columbia Pictures Inds.*, 113 S. Ct. 1920 (1993). In order for a lawsuit to constitute "sham" litigation, it "must be objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits." *Id.* at 1927-28. only then may the court inquire into the party's subjective motivation. *Id.*

It cannot be reasonably contended that this litigation is a "sham." Plaintiff has prevailed on its trademark, unfair competition, and false designation claims. Earlier, Judge Smith granted Hewlett-Packard a TRO on the trademark claims and this Court granted Hewlett-Packard a preliminary injunction. "[A] successful 'effort to influence governmental action . . . certainly cannot be characterized as a sham.") (quotation omitted). *Id.* at 1927; *see also USS-Posco Indus. v. Contra Costa Cty. Bldg. & Const.*, 31 F.3d 800, 811 (9th Cir. 1994) (finding that series of lawsuits could not be considered objectively basis for purposes of antitrust liability when fifteen of the twenty-nine lawsuits proved successful).

Even looking at the patent claims alone, it cannot be said that institution of the proceedings was "objectively baseless" or "lacking in probable cause." *Id.* at 1329-30. Although Hewlett-Packard's theory that Repeat-O-Type's modification of its patent was ultimately unavailing, it was "warranted by existing law" or at least based on an objectively "good faith

argument for the extension, modification, or reversal of existing law." *Id.* at 1930-31 (quoting Rule 11). In fact, the Court implicitly rejected Repeat-O-Type's argument by denying Repeat-O-Type's request for Rule 11 Sanctions.

Moreover, defendant's proposed antitrust counterclaim is merely conclusory and fails to contain the requisite specificity to avoid dismissal under Rule 12(b)(6). In order to state a claim under the sham exception from antitrust immunity, a plaintiff must include allegations of the specific activities, not protected under the *Noerr-Pennington* doctrine, which support its claim. *Franchise Realty v. S.F. Local Joint Exec. Bd.*, 542 F.2d 1076, 1082-83 (9th Cir. 1976), *cert. denied*, 430 U.S. 940 (1977) ("[I]n any case, whether antitrust or something else, where a plaintiff seeks damages or injunctive relief, or both, for conduct which is prima facie protected by the First Amendment, the danger that the mere pendency of the action will chill the exercise of First Amendment rights requires more specific allegations than would otherwise be required.").

b. *Related State Law Claims*

Repeat-O-Type's proposed state law claims are subject to the same analysis as the antitrust claim. In *Pacific Gas & Electric Co. v. Bear Stearns & Co.*, 50 Cal. 3d 1118 (1990), the California Supreme Court applied the *Noerr-Pennington* doctrine to a claim for intentional interference with prospective economic advantage. The Court held that a party must allege that the litigation was brought without probable cause and that the litigation concluded in plaintiff's favor in order to state a valid claim. The Court's reasoning suggests that the *Noerr-Pennington* doctrine applies to all claims that a party's institution and prosecution of a lawsuit constitutes a tort. As

the lawsuit did not conclude in Repeat-O-Type's favor, Hewlett-Packard had "probable cause" to file its lawsuit, and the claims are not alleged with the requisite specificity, plaintiff's first, second, third, fifth, and sixth causes of action for unfair competition, intentional interference with a prospective business advantage, negligent interference with a prospective business advantage, abuse of process, and combination in restraint of trade are also barred.

c. *Wrongful Seizure Counterclaims*

Repeat-O-Type proposes to file two counterclaims for unlawful seizure, one based on the Lanham Act (Count VII) and the other on Cal. Bus. & Prof. Code § 14340(c) (Count VIII). Since Hewlett-Packard sought and was granted a Seizure Order, only under the Lanham Act, federal law governs. Hewlett-Packard was granted a TRO and seizure Order more than two years ago. The Court has ruled that the seizure was proper. Thus, Repeat-O-Type's proposed counterclaim is both untimely and without merit.

d. *Trade Libel*

Repeat-O-Type's proposed trade libel claim is not closely related to the factual allegations in the instant case; the matter currently before the Court relates to Repeat-O-Type's modifications to and packaging of Hewlett-Packard print cartridges. It is within the court's discretion to deny leave to amend where the proposed counterclaim presents a cause of action unrelated to the pending action. *See Insurance Concepts, Inc. v. Western Life Ins. Co.*, 639 F.2d 1108, 1114 (5th Cir. 1981). Moreover, Repeat-O-Type has alleged no statement or writing made by Hewlett-Packard which specifically statement or specifically disparages Repeat-O-Type's goods.

e. *Summary*

Although leave to amend is generally liberally granted, this is a situation where leave to amend should be denied.

Repeat-O-Type's proposed counterclaims are untimely and amendment would insert entirely new issues, delay the proceedings, and prejudice defendants. Furthermore, amendment would be futile. . . .

* * *

CONCLUSION

For the foregoing reasons . . .

* * *

(2) Defendant Repeat-O-Type's motion for leave to file counterclaims is DENIED.

* * *

IT IS SO ORDERED.

Dated: August 30, 1995

s/ D. Lowell Jensen
United States District Judge

APPENDIX B — OPINION OF THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT DATED AUGUST 12, 1997

HEWLETT-PACKARD COMPANY,
Plaintiff-Appellant,

v.

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION, INC. and FRED KEEN, Defendants-Appellees.

No. 96-1379.

United States Court of Appeals,
Federal Circuit.

Aug. 12, 1997

Before ARCHER, *Chief Judge*, MAYER, and LOURIE, *Circuit Judges*.

LOURIE, *Circuit Judge*.

Hewlett-Packard Company (HP) appeals from the summary judgment of the United States District Court for the Northern District of California, holding that Repeat-O-Type (ROT) does not infringe any of the asserted patents by modifying and reselling HP's ink jet cartridges. *Hewlett-Packard Co. v. Repeat-O-Type, Inc.*, No. 92-CV-3330 (N.D. Cal. Apr. 17, 1996). Because ROT's modification does not constitute impermissible reconstruction and because HP has failed to raise genuine issues of material fact regarding infringement of any of the patents in suit, we affirm.

Appendix B

BACKGROUND

HP manufactures and sells ink jet printers and disposable ink jet cartridges for its printers. Before running out of ink, the cartridges can print approximately 200 to 2000 pages, depending on the cartridge used and the nature of the printing being performed. Once the ink in a cartridge has been depleted, HP expects the cartridge to be discarded and replaced by a new one. Instructions accompanying the cartridges disclaim liability for printer damage caused by refilling and advise the user to "discard old print cartridge immediately."

The HP cartridges use thermal ink jet printing technology in which ink is transferred, drop-by-drop, onto paper, overhead transparencies, or other similar media. Specifically, the cartridges employ a printhead containing thermal resistors that are fabricated within a thin-film-semiconductor substrate and heat and propel ("jet") tiny droplets of liquid ink onto a medium, such as paper. The cartridges also contain an ink reservoir that stores the ink transferred to the printhead during printing. During the ink jet printing process, the printer's electronics provide electrical energy to the cartridge, which conducts the energy through the thermal resistors in the printhead, causing the thermal resistors to heat. As a result, the ink which is delivered to the resistors boils and forms a vapor, which causes nearby ink droplets to be propelled out of the cartridge and onto the paper or other medium. HP warns its customers that refilling the cartridges may reduce print quality due to clogging of the printhead nozzles, corrosion of the cartridge electronics, or incompatibility of non-approved inks with the cartridges.

HP owns numerous patents on various facets of ink jet printing technology, including patents on ink jet printers,

cartridges, and ink formulations. Twelve of these patents are involved in this suit. Of the twelve asserted patents, two of them, U.S. Patents 4,827,294 and 4,931,811, are directed to ink jet cartridges (referred to in the patents as "ink jet pens") and a third, U.S. Patent 5,108,503, is directed to a specific ink formulation. The remaining patents are directed to other aspects of ink jet printing technology and are directed to specific components within ink jet cartridges: U.S. Patents 4,347,524 (shock absorption of an ink supply tube); 4,635,073 (thermal printhead); 4,683,481 (thermal resistors in substrate); 4,771,295 (process for filling an ink jet cartridge with ink); 4,794,410 (thermal resistor structure); 4,794,411 (ink propulsion from printhead); 4,812,859 (multichamber ink jet pen); 4,862,197 (thin-film-resistor printhead); and 4,872,027 (printer and ink jet printhead and their interconnection).

The '294 patent, entitled "Thermal Ink Jet Printhead Assembly Employing Beam Lead Interconnect Circuit," is directed to an "ink jet pen" (*i.e.*, a cartridge), which forms an improved electrical connection between the printhead of the pen and the ink jet printer carriage in which the pen is mounted.

Claim 3 of the '294 patent, which is representative, reads as follows:

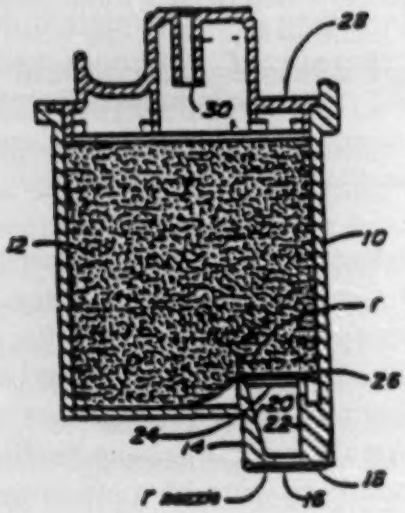
> An ink jet pen including in combination:
>
> (a) a pen body housing having an ink storage compartment therein and an ink flow port adjacent one surface thereof and further having outer surfaces which are contoured to mate with adjacent surfaces of a pen carriage member,

(b) a thin film printhead mounted on said one surface of said pen body housing and adjacent to said ink flow port therein for receiving ink from said ink flow port during an ink jet printing operation, and

(c) a flexible electrical circuit member including a plurality of beam leads bonded at predetermined locations on said thin film printhead for supplying electrical power and signals thereto during an ink jet printing operation, said flexible electrical circuit being extended over one of said contoured outer surfaces of said pen body housing and secured thereto, whereby electrical conductors in a pen carriage are adapted to mate with certain ones of said beam leads of said flexible electrical circuit for supplying power and electrical drive signals to said beam leads when said pen body housing is mounted in said carriage.

The '811 patent, entitled "Thermal Ink Jet Pen Having A Feedtube With Improved Sizing And Operational With A Minimum Of Depriming," is directed to an "ink jet pen" that uses a "standpipe" to improve the connection between the ink reservoir and the printhead.

Appendix B



As illustrated in the accompanying diagram from the '811 patent, the pen body construction includes a pen body housing (10) and a cap (28). The pen body also includes a foam storage material (12) which serves as the ink reservoir, a standpipe formed by walls (20) and (22), and a printhead (18). The cap (28) has an air vent tube (30) for supplying air to the ink reservoir as ink is transferred through the standpipe to the printhead. The patented invention improves on the prior art by providing a standpipe that prevents air bubbles from impeding the flow of ink to the printhead.

Claim 2 of the '811 patent, which is representative, reads as follows:

> 2. A thermal ink jet pen including an ink reservoir therein, and a thin film printhead interconnected to said reservoir by way of a standpipe, with said standpipe having an air accumulating section at the

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ink receiving end thereof and said thin film printhead including an orifice plate with a plurality of orifii therein of a known radius, r_{nozzle} characterized in that the minimum acceptable radius, r, of said air accumulating section of said standpipe satisfies the equation $r/r_{nozzle} > 100$.

The '503 patent, entitled "Smear Resistant Inks For Ink jet Printers," is directed to an ink formulation. Claim 2 depends from claim 1, which has recently been disclaimed, and adds the following limitation: "The ink of claim 1 which is buffered to a pH from about 6 to about 9." Likewise, claims 15 and 19 are limited to formulations containing "sufficient ammonium acetate . . . to provide an ink with a pH from about 7 to about 7.5. . . ." The other asserted claims, 3, 8, 10, 16, and 18, depend from either claims 2 and 15 and thus incorporate the pH limitations.

ROT purchases two types of HP ink jet cartridges, model HP 51625A (known within HP as the "Kukla" cartridge) and model HP 51608A (known within HP as the "Stanley" cartridge). The Kukla cartridge is designed for color printing and contains three reservoirs which hold inks corresponding to the three primary subtractive colors. The Kukla cartridge includes a cap that is ultrasonically welded to the rest of the body of the cartridge, the cap being designed to permit small amounts of air to enter the ink reservoir. The Stanley cartridge, on the other hand, has a single reservoir and is sold by HP with black ink only. It is designed for use with the DeskJet and DeskWriter family of ink jet printers and for the HP FAX-300 ink jet fax machine. The Stanley cartridge includes a hole that is used to fill the ink reservoir at the time of manufacture and also allows air to enter the reservoir during printing.

Appendix B

The Kukla and Stanley cartridges were designed to be non-refillable. As James M. Martin, a product manager for HP, stated, because "refilled cartridges present significant problems of resistor lifetime, nozzle clogging and air bubble formation, the cartridges are not intended to be refilled. Accordingly, the user instructions in the Kukla and Stanley cartridges advise the user to 'Discard old print cartridge immediately.' " ROT has chosen to disregard HP's advice. ROT purchases Kukla and Stanley cartridges, modifies them so that they will be refillable, and then resells them as refillable ink jet cartridges. As HP concedes, ROT starts with brand-new and unused HP cartridges. It does not modify "spent" cartridges. ROT clearly describes the cartridge modification in its own patent, U.S. Patent 5,408,256, entitled "Refillable Color Ink Jet Cartridge And Method For Making Said Cartridge:"

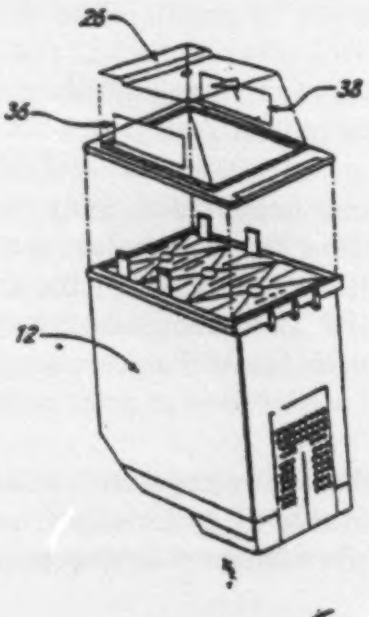

Figure 3 from the '256 Patent

Appendix B

A non-refillable color ink jet cartridge such as the Hewlett-Packard #51625A can be converted into a refillable cartridge. The upper portion of this cartridge contains the three air vent/ink refill holes, and this upper portion has a plastic cap capable of being removed. After placing the body of the plastic cartridge on a suitable support such as, for example, the edge of a table, the protective plastic cap covering the upper portion of the cartridge can be removed by prying it off of a cartridge with a sharp instrument such as a knife.

. . .

The upper protective cap [26] can now be modified so that it can be placed snugly back onto the main cartridge body [12] as often as is necessary to replenish depleted ink supplies. A variety of methods can be employed to do this, including placing two adhesive backed pads [36 and 38] at both sides of the longitudinal length of the upper protective cap.

'256 Patent, col. 1, line 56 to col.2, line 18. ROT sells the modified refillable ink jet cartridges in kits which also contain bottles of refillable ink. The refillable ink is not manufactured or supplied by HP. In addition to modifying the cartridges, ROT replaces the black ink of Stanley cartridges with a variety of color inks and resells them as color cartridges.

In 1992, HP filed suit against ROT after learning that ROT was selling refillable ink jet cartridges. In its original complaint, HP sued ROT for trademark infringement, unfair competition,

and other non-patent causes of action. Shortly thereafter, HP amended its complaint to assert that ROT's modification and resale of the cartridges infringed eleven HP patents pertaining to ink jet cartridges. HP also amended the complaint to assert that the inks sold by ROT infringed one of HP's ink patents and to add Fred Keen, ROT's president and majority stockholder, as a defendant.

ROT moved for summary judgment of non-infringement of all of the asserted patents, and HP moved for summary judgment of infringement on the trademark claims and on two of the patent claims. HP asserted that ROT's resale of the modified Stanley cartridge infringed the '811 patent and that ROT's resale of the modified Kukla cartridge infringed the '294 patent. After hearing arguments on the cross-motions for summary judgment, the district court ruled in favor of HP on the trademark infringement claims and in favor of ROT on the patent infringement claims. The trademark ruling was not appealed.

With regard to patent infringement, the district court first stated that, in light of HP's sale, ROT had the right to use and resell Kukla and Stanley cartridges that were lawfully purchased. The court then considered whether ROT's modification created an infringing product. The court noted that ink was not an element of the claimed invention of the '811 patent. Thus, the court held that ROT's replacement of the ink, a non-patented component, in the Stanley cartridge was not patent infringement.

As for the '294 patent, the court noted that the cap is not an element of the claims and held that "breaking the seal of the cap and replacing the cap with shims so that the cap could be

removed and the cartridge refilled by the consumer, does not constitute impermissible 'reconstruction.' " Finally, holding that HP failed to present sufficient evidence of infringement to create any genuine issues of material fact, the court ruled that ROT was entitled to judgment of non-infringement on all the patent claims as a matter of law. Finding no just reason for delay, the district court entered final judgment on the patent claims pursuant to Fed. R. Civ. P. 54(b). HP now appeals to this court. We have jurisdiction to hear this appeal under 28 U.S.C. § 1295(a)(1) (1994).

DISCUSSION

We review a district court's grant of summary judgment *de novo*. *Conroy v. Reebok Intl, Ltd.*, 14 F.3d 1570, 1575, 29 USPQ2d 1373, 1377 (Fed. Cir. 1994). Summary judgment is appropriate when no genuine issue exists as to any material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). Thus, summary judgment may be granted when no "reasonable jury could return a verdict for the nonmoving party." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986). In determining whether there is a genuine issue of material fact, the evidence must be viewed in the light most favorable to the party opposing the motion, with doubts resolved in favor of the opponent. *Transmatic, Inc. v. Gulton Indus., Inc.*, 53 F.3d 1270, 1274, 35 USPQ2d 1035, 1038 (Fed. Cir. 1995).

A. *The '294 and '811 Patents*

The patent statute provides that "whoever without authority makes, uses, . . . or sells any patented invention, in the United States . . . during the term of the patent therefor, infringes the

patent." 35 U.S.C.§ 271(a) (1994). Infringement thus not only requires that claims read on accused devices, but also requires that the accused devices be made, used, or sold without authority. Thus, even if the patents in suit read on the accused cartridges, there is no infringement if ROT acted "with authority" granted by HP's unconditional sale of the cartridges in question.

HP argues that ROT's modification and resale of the Stanley and Kukla cartridges infringes the '294 and '811 patents. HP first asserts that the district court erred in its interpretation of the claims of the '294 and '811 patents and that this error infected the district court's infringement analysis. Specifically, HP argues that the district court erred by holding that the "patents are not for the [ink jet] cartridges themselves; they are for certain elements which are *in* the cartridges" (emphasis in original).

HP also argues that ROT's modification creates new cartridges because the modified cartridges have different properties, different features, and different performance characteristics compared with the cartridges sold by HP. HP contends that because ROT sells cartridges that differ from the cartridges purchased from HP, the cartridges are "new," not "authorized," and therefore infringe. HP emphasizes that, although the cap is not explicitly recited in the claims, the cap on the Kukla cartridge is part of the "pen body housing" recited in claim 3 of the '294 patent. Thus, HP argues, modification of the cap necessarily involves modification of the claimed "pen body housing" and thus the use and sale after such modification is an infringement. Similarly, HP argues that the cap of the Stanley cartridge is part of the claimed "ink reservoir" of claim 2 of the '811 patent.

ROT responds that refilling the ink in the cartridges cannot constitute infringement, because, while HP may have a patent on the cartridge, *i.e.*, the container, HP does not have a patent on the contents of the container, specifically, the ink. ROT further argues that the replacement of components of the cartridges that are not specifically recited elements of the asserted claims cannot be considered a "manufacture" of the claimed inventions. ROT argues that because neither the cap nor the ink are recited elements of the claims, their modification or replacement cannot constitute infringement.

We agree with HP that the court misconstrued the claims. They relate to ink jet cartridges, not to specific components within the cartridges. The preamble of each claim clearly states that it relates to an "ink jet pen including" the recited limitations. The claim term "including" is synonymous with "comprising," thereby permitting the inclusion of unnamed components. Thus, claim 3 of the '294 patent, for example, reads on ink jet pens that contain the recited pen body housing, thin film printhead, and the flexible electrical circuit member. If these three elements can be identified in ROT's cartridges, then such cartridges are within the scope of that claim and the unauthorized manufacture or sale of such a cartridge infringes the claim.

Although the district court did not construe the claim terms "pen body housing" or "ink reservoir," and hence did not consider whether modification of the cap results in a modification of specific elements of the claims, for purposes of our inquiry into ROT's "authority," we will assume that HP's patents read on ROT's modified cartridges. We will also assume that modification of the cap involves "making" the "ink jet pens" claimed in the '294 and '811 patents. The question before

us is whether this modification is authorized, or whether it exceeds the scope of the implied license granted to ROT and subsequent purchasers by the sale of the ink jet cartridges.

Generally, when a seller sells a product without restriction, it in effect promises the purchaser that in exchange for the price paid, it will not interfere with the purchaser's full enjoyment of the product purchased. The buyer has an implied license under any patents of the seller that dominate the product or any uses of the product to which the parties might reasonably contemplate the product will be put. *See Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544, 548, L.Ed. 322 (1872) ("Complete title to the implement or machine purchased becomes vested in the vendee by the sale and purchase. . . . Patented implements or machines sold to be used in the ordinary pursuits of life become the private individual property of the purchasers, and are no longer specifically protected by the patent laws. . . .").

The authority to use and sell a purchased device, however, does not include the right to make a new device or to reconstruct one which has been spent. Reconstruction, *i.e.*, the re-creation of a patented combination, is an infringement because such activity is beyond the implied authorization to use and sell a patented device. As the Supreme Court has stated:

> The decisions of this Court require the conclusion that reconstruction of a patented entity, comprised of unpatented elements, is limited to such a true reconstruction of the entity as to 'in fact make a new article,' after the entity, viewed as a whole, has become spent. In order to call the monopoly, conferred by the patent grant, into play for a second time, it must, indeed, be a second creation of the

> patented entity. . . . Mere replacement of individual unpatented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property.

Aro Mfg. Co. v. Convertible Top Replacement Co., 365 U.S. 336, 346, 81 S.Ct. 599, 604, 5 L.Ed.2d 592, 128 USPQ 354, 359 (1961) ("*Aro I*") (citations omitted). On the other hand, one does have authority to repair a patented device that he has purchased. This case raises the question whether the modification of the HP cartridges by ROT is repair, as the district court implicitly held, or is tantamount to reconstruction, as HP urges.

It is undisputed that HP sold and ROT purchased the Kukla and Stanley cartridges without restriction; HP has not alleged that ROT breached any contract affecting the transaction. When HP (or an agent with authority to sell) sold the cartridges, HP parted with the right to enforce any of its patents relating to the cartridges thus sold to exclude the purchaser from using or selling them. *See Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484, 84 S.Ct. 1526, 1531, 12 L.Ed.2d 457, 141 USPQ 681, 685 (1964) ("*Aro II*") ("[I]t is fundamental that sale of a patented article by the patentee or under his authority carries with it 'an implied license to use.' ") (quoting *Adams v. Burke*, 84 U.S. (17 Wall.) 453, 456, 21 L.Ed. 700 (1873)); *United States v. Univis Lens Co.*, 316 U.S. 241, 249, 62 S.Ct. 1088, 1093, 86 L.Ed. 1408 (1942) ("An incident to the purchase of any article, whether patented or unpatented, is the right to use and sell it . . ."); *Mitchell*, 83 U.S. (16 Wall.) at 547 (stating that where the sale is without restriction, "the rule is well established that the patentee must be understood to have

parted to that extent with all his exclusive rights, and that he ceases to have any interest whatever in the patented machine so sold and delivered").

HP correctly states that ROT's modification is not conventional repair. The caps on the purchased cartridges are not broken or defective. On the other hand, neither is ROT's modification a "reconstruction" of the patented combination. A reconstruction occurs after the patented combination, as a whole, has been spent, when "the material of the combination ceases to exist." *Wilson v. Simpson*, 50 U.S. (9 How.) 109, 123, 13 L.Ed 66 (1850). While there is no bright-line test for determining whether a modification is a "reconstruction" sufficient to infringe a patent owned by the seller of the product, on the undisputed facts in this case, we agree with the district court that ROT has not reconstructed the cartridges. ROT's modification of the caps of HP's cartridges is more akin to permissible "repair" than to impermissible "reconstruction." *See Kendall Co. v. Progressive Med. Tech. Inc.*, 85 F.3d 1570, 1575, 38 USPQ2d 1917, 1921 (Fed. Cir. 1996) (stating that "as long as reconstruction does not occur or a contract is not violated, nothing in the law prevents a purchaser of a device from prematurely repairing it"). While HP had the right to be free from competition from those who would reconstruct spent products, ROT did not do that. Even accepting that ROT's actions constitute a "making" of the accused cartridges, they were made from new and unused HP cartridges purchased from a legitimate source, and the property of ROT; the HP cartridges were certainly not spent. Furthermore, ROT does not *replace* any of the elements recited in the claims; the housing, printhead, standpipe, ink reservoir, and flexible strip are all original components of the purchased cartridges. Using the original housing, ROT only changes the way in which the cap of an

unused, new cartridge is connected to the remainder of the cartridge. This modification allows ROT's customers to use the cartridges for the duration of the life of the patented combination, rather than be limited by the duration of the ink supply in the cartridge.

The Supreme Court decision in the case of *Wilber-Ellis Co. v. Kuther*, 377 U.S. 422, 84 S.Ct. 1561, 12 L.Ed.2d 419, 141 USPQ 703 (1964), decided on the same day as *Aro II*, is instructive on this point. In that case, the patentee sued the purchaser of patented fish-canning machines after the purchaser modified the machines. As originally constructed, the machines packed fish into one-pound cans. The purchaser had six of thirty-five elements of the machines resized so that the machines would pack fish into smaller five-ounce cans. Declining to treat the unrestricted sale of the machines as a license for use on one-pound cans only, the Supreme Court held:

> When six of the 35 elements of the combination patent were resized or relocated, no invasion of the patent resulted, for as we have said the size of cans serviced by the machine was no part of the invention; nor were characteristics of size, location, shape and construction of the six elements in question patented. Petitioners in adapting the old machines to a related use were doing more than repair in the customary sense; but what they did was kin to repair for it bore on the useful capacity of the old combination, on which the royalty had been paid.

Wilbur-Ellis, 377 U.S. at 424-25, 84 S.Ct. 1561, 1563, 141 USPQ at 704-05. Likewise, ROT's modification of the original HP cartridges improved their usefulness by allowing ROT and

its customers to use them for their own purposes. It was "kin to repair." We find HP's arguments attempting to distinguish *Wilbur-Ellis* unconvincing.

HP argues that the machines in *Wilbur-Ellis* had not reached the end of their intended life, whereas the intended and useful life of its cartridges ends as soon as a single reservoir of ink is depleted because at that point, print quality cannot be assured. It asserts that "Hewlett-Packard engineered the Kukla and Stanley cartridges so that no component would fail prior to delivery of all of the ink contained therein." While such engineering may be testimony to the quality of HP's product, and ROTs actions may affect HPs warranties, this argument does not support HPs legal position. HPs unilateral intentions cannot change the fact that ROT has only modified an unused cartridge that HP sold without restriction. HP fails to recognize the distinction between what it intended to be the life of the cartridge, as determined by the ink supply, and its actual useful life. As HP's assertion makes clear, the cartridges are specifically designed so that the ink is depleted not only *before* the patented combination as a whole is spent, but *before* any single component of it is spent (such as the printhead). Thus, the useful life of the patented combination is substantially longer than the life of a single reservoir of ink.

HP also argues that the boundary between "permissible repair" and "impermissible reconstruction" turns on the intention of the patentee. HP contends that it has clearly manifested its intent that the ink jet cartridges be non-refillable. The package insert accompanying the cartridges suggests that the cartridges be discarded once they are empty; HP does not sell refillable cartridges, and HP does not sell ink refills. Because it has always manifested an intent that its cartridges

be discarded, it argues, the creation of refillable or refilled cartridges are unauthorized acts which constitute an infringement of its patents. HP in effect argues that any change to a patented product that is not intended by the patentee constitutes reconstruction. In support of its theory, HP cites *Wilson*, 50 U.S. (9 How.) at 125-126, as establishing an "intent-of-the-patentee analysis" for determining whether conduct is to be considered a "repair" or a "reconstruction." We do not agree; HP has misread *Wilson*. Although at times speaking in terms of the intention of the inventor, the Court focused on the nature of the device sold, and specifically on the fact that the machine was designed such that one group of components, the knives, would wear out long before the remaining components:

> The proof in the case is, that one of [the inventor's] machines, properly made, will last in use for several years, but that its cutting-knives will wear out and must be replaced at least every sixty or ninety days.
>
> . . .
>
> [If such a] part of the combination is meant to be . . . frequently replaced, because it will not last as long as the other parts of the combination, its inventor cannot complain.

Wilson, 50 U.S. (9 How.) at 125-26. Although HP cites *American Cotton-Tie Co. v. Simmons*, 106 U.S. (6 Otto.) 89, 94, 1 S.Ct. 5, 56-57, 27 L.Ed. 79 (1882), as additional support for its "intent-of-the-patentee" theory, the Supreme Court, in *Aro I*, referred to *American Cotton-Tie* by noting that "the fact that the [devices] were marked 'licensed to use once only' was deemed of importance by the Court." *Aro I*, 365 U.S. at 343

n. 9, 81 S.Ct. at 603 n. 9 , 128 USPQ at 358 n. 9. Thus, absent a restriction having contractual significance, a purchase carries with it the right to modify as long as reconstruction of a spent product does not occur. *See Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700, 24 USPQ2d 1173 (Fed. Cir. 1992) (stating that should "single use only" restriction be enforceable on remand, reuse of device would be a breach of contract and therefore unauthorized). The question is not whether the patentee at the time of sale intended to limit a purchaser's right to modify the product. Rather the purchaser's freedom to repair or modify its own property is overridden under the patent laws only by the patentee's right to exclude the purchaser from making a new patented entity. Each case turns on its own particular facts, but a seller's intent, unless embodied in an enforceable contract, does not create a limitation on the right of a purchaser to use, sell, or modify a patented product as long as a reconstruction of the patented combination is avoided. A noncontractual intention is simply the seller's hope or wish, rather than an enforceable restriction.

HP's arguments based on decisions of this court are similarly unavailing. In *Sage Products, Inc. v. Devon Industries, Inc.*, 45 F.3d 1575, 33 USPQ2d 1765 (Fed. Cir. 1995), we held that an inner container of a patented medical waste disposal system was effectively spent when filled and thus could be replaced or repaired without infringing the patent. In response to the patentee's argument that the inner containers were not spent, the court noted, *inter alia*, that the patentee admitted that it intended that customers replace the inner containers. 45 F.3d at 1578, 33 USPQ2d at 1767. The patentee's intent was relevant, not to limit use by the purchasers, but to show that the patentee expected the product to be repaired. Neither that decision nor other decisions of this court cited by HP suggest

that a patentee's intent alone limits the scope of the implied license that accompanies the sale of goods.

Accordingly, even though HP clearly intends the filled cartridges which it sells to be discarded after a single use, HP cannot use the patent laws to impose restrictions on the cartridges' use after selling them unconditionally. The modification made by ROT, essentially replacing the type of seal holding the cap onto an unused cartridge, is not a "second creation of the patented entity" so as to constitute an infringement of HP's ink jet pen patents. See *Aro I*, 365 U.S. at 346, 81 S.Ct. at 604-06, 128 USPQ at 359. Were we to rule in HP's favor in this case, we would be depriving ROT of the right to use and resell its own property, an unused product it purchased free of restriction, and enable HP to limit the use of a product it freely sold without restriction.

B. *The '503 Ink Patent*

HP argues that summary judgment of non-infringement of the '503 patent was improperly granted because the court ignored evidence of infringement proffered by HP, including "admissions of infringement by two of ROT's ink chemists. We find no error in the district court's conclusion that, viewing the evidence in a light most favorable to HP, it has failed to meet its burden to show the existence of genuine issues of fact for trial. Regarding the "admissions," HP cites deposition testimony by a former ROT chemist in which the chemist stated that he believed that ROT's black ink refill "fell within the claims" of the '503 patent. However, during the same deposition and when questioned claim by claim, he could not identify a single claim that read on ROT's inks. He further explained in detail why the chemical compositions of ROT's inks did not

meet each element of the asserted claims as he understood them. Upon questioning regarding the discrepancy in his testimony, the chemist explained that he did not understand the examining attorney's use of the phrase "fall within the claims" to mean that every limitation of each claim was met by the accused product. Thus, the chemist offered unrebutted testimony that the accused ink was not within the scope of the asserted claims. His earlier conclusory response, based on a misunderstanding of the question asked and immediately shown to be an inaccurate summary of his views, does not raise a genuine issue of material fact.

The other evidence cited by HP is the statement by an ROT chemist that ROT's president had told her on her first day of work that "there was a problem, there was patent infringement" regarding an ink jet ink formula developed by another chemist. This statement is hardly an admission that the accused products infringe the asserted claims of the patent at issue. HP has failed to provide any evidence that creates a genuine issue of fact concerning whether the accused products contain inks that are covered by the asserted claims of the '503 patent.

C. *The Remaining Patents In Suit*

The remaining nine patents allegedly cover various components of ink jet cartridges. ROT does not appear to dispute this. In its Statement of Undisputed Material Facts submitted to the district court, ROT admitted that "[t]he claims of [the patents in suit] claim either structure of the elements of the cartridges or methods of making same." However, ROT contends that its modification does not affect these elements, and HP does not allege otherwise. Rather HP argues that the modified cartridges are "new" devices that infringe these patents

as well. As previously discussed, this argument misses the mark. HP has not introduced any evidence to show that ROT's limited modification constitutes reconstruction of the patented cartridges.

With regard to the '295 patent, HP argues that ROT's activities infringe process claims directed to "providing" ink reservoirs with ink and "filling" ink reservoirs with ink. This argument is also unpersuasive. Unauthorized use of the cartridges covered by the apparatus claims would necessarily infringe the asserted process claims. As previously articulated, however, when a patentee sells a device without condition, it parts with the right to enforce any patent that the parties might reasonably have contemplated would interfere with the use of the purchased device. While HP may assert that it didn't intend that the cartridges be refilled, there was no agreement on that point. Moreover, a license was impliedly granted under the patent for the additional reason that it contained apparatus claims as well as process claims covering use of the cartridges. Accordingly, HP "authorized" the practice of any method claims in the '295 patent when it sold the cartridges unconditionally. *Univis Lens Co.*, 316 U.S. at 249, 62 S.Ct. at 1093 (stating that "upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold"). Finally, HP has not met its burden of showing the existence of an issue of material fact with regard to the asserted method claims of the '295 patent.

CONCLUSION

The district court did not err in granting ROT's motion for summary judgment of non-infringement of all twelve asserted

patents and in denying HP's contrary motion regarding two of the patents. HP sold ink jet cartridges without condition or restriction. ROT lawfully purchased the cartridges and modified them in a manner that was more akin to permissible repair than to impermissible reconstruction. Therefore, ROT's modification and sale of the cartridges did not infringe the asserted claims of the two "ink jet pen" patents or the asserted process claims allegedly covering the use of the cartridges. Because it is undisputed that the modification did not effect a reconstruction of any claimed subject matter in the nine patents allegedly covering components of the cartridges, these claims were not infringed as well. In addition, the district court did not err in holding that HP failed to raise a genuine issue of fact regarding infringement of the asserted ink patent. Accordingly, the decision of the district court is affirmed.

AFFIRMED.

APPENDIX C — TABLE OF CONTENTS OF PETITIONER'S NINTH CIRCUIT BRIEF

Appeal # 98-15956

In The

UNITED STATES COURT OF APPEALS
For The Ninth Circuit

HEWLETT-PACKARD COMPANY

Plaintiff-counter-defendant-Appellee

v.

FRED KEEN;

Defendant-Appellant

and

REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION, INC.

Defendant-counter-claimant-Appellant

Appeal From United States District Court for the
Northern District of California
Honorable Vaughn R. Walker

BRIEF FOR APPELLANT
REPEAT-O-TYPE STENCIL MANUFACTURING CORPORATION

Appendix C

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